DM Monthly Report

March 2015

PORTFOLIO ACTIVITY

Other than portfolio rebalancing transactions, no equity trades were executed in February.

FEATURE STOCK

Element Financial (EFN)

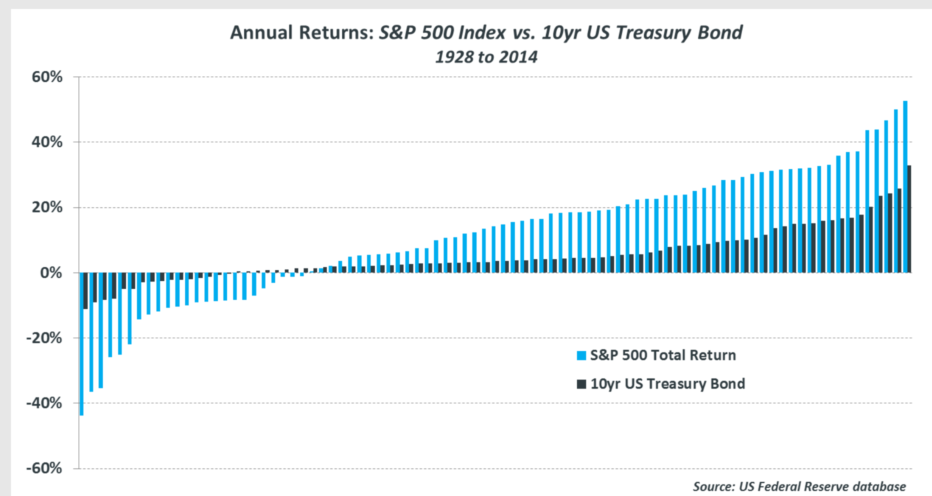
Last summer, we initiated a position in EFN in the DM Canadian Equity Portfolio. EFN was created by a well-known management team that saw unique opportunities emerging in the asset-based financing industry. Through its aggressive consolidation efforts, including the 2013 acquisition of GE Capital's Canadian vehicle fleet portfolio, EFN has grown to become one of N. America's largest players in the areas of commercial fleet management and rail and aviation finance. In addition to several smaller deals, the company completed another transformative purchase in 2014 when it bought PHH Arval, providing a strong foothold in the US vehicle leasing business. In its most recent earnings release, EFN raised its profit outlook for 2015 and announced that it plans to pay its first dividend next year. With 50% of its sales derived in US dollars (expected to rise to 70% by the end of 2015), EFN provides the DM Canadian Equity Portfolio with an effective hedge against the struggling loonie, while further diversifying our portfolio of lending businesses.

IF YOU OWN STOCKS, YOU WILL EXPERIENCE LOSS

When we take on a new client, setting appropriate asset mix is one of the most important steps in the engagement. Client attributes, such as time horizon, cash needs, and risk tolerance all contribute to our recommendation, with each of these weighed against the expected behaviour of each asset class. To provide a clearer representation of historic possibilities, below we've grouped the annual returns of the S&P 500 stock index and the 10 year US Treasury Bond according to magnitude, rather than chronologically. By arranging results in this way, several important characteristics are made somewhat more apparent:

- Not surprisingly, the variability of stock returns has been significantly wider than that of bond performance over the past 87 years, ranging from +53% in 1954 to –44% in 1931;
- The frequency of negative years is also greater for stocks, with a down period having occurred just over a quarter of the time and annual declines of 20% or more happening on six different occasions (in contrast, the worst annual loss for the 10 year US Treasury was –11%);
- Thankfully, the payoff for shouldering this heightened performance uncertainty has been a higher average annual return: since 1928, US stocks have generated a 9.6% annual compound rate of return vs. approximately 5% for bonds.

Though most investors understand the concept of equity volatility in the abstract, it is important to consider how declines in value—*sometimes severe ones*—will be greeted when they actually arrive. If a 20% drop in one's portfolio is likely to cause intolerable stress and, potentially, the abandonment of a long term investment plan, bonds should represent a meaningful component of asset mix.



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